

RECORD OF PROCEEDINGS

Minutes of

Meeting

BEAR GRAPHICS 800-325-8094 FORM NO. 10148

Held

Wednesday, November 10, 2021

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**CALL TO ORDER:** Mayor Williams called the Riverside, Ohio City Council Work Session to order at 6:01 p.m. at the Riverside Administrative Offices located at 5200 Springfield Street, Suite 100, Riverside, Ohio, 45431.

**PLEDGE OF ALLEGIANCE:** Mayor Williams led the pledge of allegiance.

**ROLL CALL:** Council attendance was as follows: Ms. Campbell, present; Mr. Denning, present; Mrs. Franklin, present; Ms. Fry, present; Deputy Mayor Lommatzsch, present; Jesse Maxfield, present; and Mayor Williams, present.

Staff present was as follows: Joshua Rauch, City Manager; Chris Lohr, Assistant City Manager; Kathy Bartlett, Public Service Director; Gary Burkholder, Community Development Director, Tom Garrett, Finance Director, Dan Stitzel, Fire Chief; and Katie Lewallen, Clerk of Council.

**EXCUSE ABSENT MEMBERS:** No council members were absent

**ADDITIONS OR CORRECTIONS TO AGENDA:** No changes to the agenda.

**APPROVAL OF AGENDA:** Mr. Maxfield motioned to approve the agenda. Mr. Denning seconded the motion. All were in favor. **Motion carried.**

**WORK SESSION ITEMS:**

**I) Preliminary Budget Review – Joshua Rauch, City Manager**

Mr. Rauch stated it is necessary to review what they are dealing with and how they can move forward. He wants to explore three central questions: where are they now, where are they going, and how do they get there. He thanked staff for their patience, flexibility, and feedback. He asked all the department heads to attend so that if there were any questions specific to departments they could address them. He stated that he did not include the question of ‘how did they get here’, as it is a culmination of years’ worth of environmental changes and decisions and circumstantial happenings. There is not one single person or event it can be linked to.

**Where are they now?** Mr. Rauch stated that there is reliance on the reserves to cover operating costs and as a result of that the fund balances in several funds, particularly the general fund, are nearing critical levels. This is a result of a variety of economic factors that have intensified the budget constraints. Three things in particular are the changing economic environment, tenant loss, and higher operating costs. He added that operating costs are most likely to continue to increase due to inflation, supply shortages, and general contractual increases to personnel for salaries and wages. There are some cases where the capital infrastructure commitments have exceeded available funding. He presented the beginning fund balance trends from 2011 – 2021. The main idea is they have been drawing against fund balances and are now some are down at critical levels. They entered the year with \$3.0 million in the general fund with Wright Point down at about \$300,000. The FY2022 budget will set the stage to reduce reliance on fund balance going forward.

He stated that the passing of Issue 9 helps to stabilize the police, fire and EMS costs and 100% of the revenues will be dedicated to police and fire. The General Fund will continue to support some public safety operations and capital. Going forward, 2022 will be a pivotal year. The draft budget establishes a reasonable baseline under the new income tax structure since they will now collect 2.5%, but also be crediting back so the methodology changes. They will align infrastructure spending with available resources and identify demands on the General Fund, which causes them to draw on reserves. They will create a framework for assessing revenue trends and resolving operational challenges.

**Where are they going?** Mr. Rauch explained that the 2022 budget model holds most revenues flat with a projected 5% increase in gas tax based on recent performance. Most

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operating expenses will inflate by 2% with a projected 35% increase in healthy insurance based on recent quotes; he has met with the insurance broker but doesn't have solid numbers to use as he expects to hear back by the end of next week. They have applied the projections to each line item for FY2022 and adjusted projections based on YTD performance and department feedback. He presented a pie chart that shows all the revenues by source. The average across the past 4 – 5 years is 31% income tax, 28% bond proceeds, 10% real property tax, 5% fees/permits, 5% grants, and 21% all other revenue. The chart is a bit skewed as there is a note issued to Wright Point that they repay every year and it is on a rolling cycle to pay that note because they have gotten good interest rates to do that.

He stated on income tax, they were estimating \$9.0 million in revenue based on receipts to date and where they felt they would end up by year's end. He also reached out to CCA to do a separate analysis of income tax under the new 2.5% structure and 100% refund. CCA came back with an estimate of \$8.6 million in revenues to the city; 1% will be dedicated to the General Fund, 1.5% will go to police and fire. Of that income, \$3.4 million would go to the General Fund, and \$5.2 million will go to police and fire. A small percentage will go to CCA for collection.

In terms of expenses, 39% pays for personnel, 32% pays for debt, 26% is for operating, and 3% pays for capital expenses. The city has 42 funds they use in their budget. Some funds are for specific departments/functions and others are for specific accounting purposes like the CARES Act. A good number of funds are administrative in nature. Of the 42 funds there are nine key funds: 100 – General Fund, 201 – Fire Fund, 202 – Service Fund, 203 – Police Fund, 237 – ARP, 402 – Wright Point Fund, 410 – Fire & Police Income Tax, 702 – Capital Infrastructure, and 703 – Capital Equipment. He presented a summary chart of the draft budget. The principal thing is that of all of the funds, the one that relies most on its fund balance is the General Fund. The estimated fund balance of the General Fund beginning in 2022 is \$1.9 million, and it is estimated by the end of year 2022 it will be at \$860,655. He stated the GFOA recommends having at least two months of reserve in the General Fund. A month's worth of expenses is \$600,000 - \$700,000 so the chart shows if they stick to the budget they end the year with just over a month-and-a-half worth of expenses in reserve as they can backfill that with \$300,000 in contingency funds should they choose. They cannot have another year where they dip in the reserves. In Ohio, they would enter fiscal caution with state auditors if their balance goes below one month's worth of expenditures. They need to end 2022 with at least one month's reserve or they will have a different set of problems heading into 2023.

He presented the 2022 Draft Budget for the General Fund. The estimated beginning balance is \$1.9 million and expect \$4.6 million revenue. On expenses they are expecting \$5.7 million for the year. There are nine departments in the general fund. The largest department is 110 for General Government. That department will spend \$3.83 million. All the other city departments combined will spend \$1.85 million. The reason for that is because General Government is where they are doing the transferring to other funds to keep them afloat. Of the \$3.8 million, about \$3.3 million is transfers. He presented a pie chart showing 92% of the transfers to three funds: ~\$1.4 million to public service, ~\$1.0 million to capital equipment, ~\$670,000 to other funds, which is Wright Point. When they talk about budgets with structural challenges, this is what they mean. They have operating costs in public services that require support from General Fund; they have debt service in other funds that require money from the General Fund. They have a Wright Point fund that also requires support from the General Fund. There is no other revenue that can be reached into to make the funds whole. They are digging into the reserves to bridge the gap. That is the challenge with respect to operating costs.

He reviewed the Service Fund. It creates about \$575,147 in revenue, but relies on the General Fund for \$1.4 million. In expenses, the majority of it is in personnel and contractually obligated increases to wages around \$1.25 million; the operating costs in service are roughly one-third of the expense around \$694,484. There is a line item amount of \$100,000 for the



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ADA transition plan that he has included as part of the operating cost. It is optional, however, if they do not do it, at some point their ability to secure additional grants will be reduced. They also need to stay federally compliant.

He reviewed the Capital Equipment Fund, Fund 703. This fund is totally reliant on transfers from the General Fund, \$999,355. This pays for debt service on capital infrastructure, \$290,050; debt service on existing capital equipment, \$447,905; and new capital equipment, \$261,400. In 2023, the debt service on capital can be transferred to Fund 702 because this is debt service for things related to streets and other things. Gas tax and motor vehicle tax can help pay for that.

He reviewed the Wright Point Fund, Fund 402. The estimated beginning balance is \$350,000 with estimated annual revenue of \$600,000. They estimate a note issuance of \$4.9 million, and will receive \$670,312 from the General Fund. The wrinkle on Wright Point is that they have lost two tenants this year and it was originally estimated to bring in \$800,000 rather than \$600,000. Losing those tenants has put Wright Point in a place where it will need more support from the General Fund.

Mayor Williams asked if their ability to spend into reserves would be limited based on a changing standard or had that always been the case. Mr. Rauch stated he understood it as always being the case. He explained there are specific sets of criteria on the auditor's website if there is fiscal caution, fiscal distress, or fiscal emergency. Discussion was held on the fiscal caution condition. It isn't related to debt, but how they end the year with money.

Mr. Rauch stated with respect to public safety, they need to start with Fund 410, the Fire & Police Income Tax Fund. This is where the split from the income tax happens. When they get receipts from CCA, 60% will go to police and fire as that is 1.5% of 2.5%; the remainder will go into the general fund. The revenue for 2022 is estimated at \$5.2 million. Of that, \$3.2 million will be transferred to police and ~\$1.8 million will be transferred to fire with roughly \$208,000 going to CCA for the collection. In the Fire Fund, it is estimated to begin the year with \$400,000 and gains revenue from EMS billing ~\$1.5 million along with the transfer from Fund 410 of nearly \$1.8 million for a total of \$3.69 million. The major expenses for fire are personnel at ~\$2.8 million which includes a 2.5% wage increase; operating costs total near \$443,624 for an expense of ~\$3.3 million. He added that in 2023, the SAFER grant drops off and that is about \$65,000 they will no longer receive. The Police Fund is estimated to begin with a balance of \$100,000 and also gains revenue from real estate taxes and taxes dedicated to it for around \$1.28 million. There is a transfer from Fund 410 of ~\$3.2 million, but will still need support from the General Fund around \$171,392. The total revenue for police is \$4.77 million. Personnel costs for police with future increases is ~\$4.0 million, and there is an operating expense of \$665,012, for a total expense of \$4.67 million. He stated that next year's budget is structured to avoid drawing on any fund balances that public safety may have going into the year. He wants to avoid a situation it even looked like they were taking money from public safety and giving it to a general fund purpose. This is deliberate to give the public safety people breathing room for things that may arise. The overall goal is to stabilize the general fund to support continued investments in public safety and other priorities. This will require time and intense oversight of revenue and expenditure trends next year.

Mr. Rauch reviewed the ARP Funds and the initial award to the city of \$1.3 million. These funds are much more restrictive than previous funds like the CARES Grant. They are able to spend this money for anything related to water or waste water, and storm water. They are also using the funds to offset COVID-related fire payroll. This leaves them with an ending balance of \$274,054. There are no projected uses for this fund at present. It is a one-time award and they will be likely to use the funds for storm water issues that come up next year. He is holding it in the bank to give as much flexibility as possible for use of these funds along with the another \$1.3 million to be awarded next year. He is still researching with the finance director to see if they have experienced a revenue loss due to COVID. It was

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determined that they have not experienced a loss and what they did experience they had been made whole.

He reviewed Fund 702. This fund brings in roughly \$860,000 and ARP funds, for storm water projects, added to it will give it a total revenue for 2022 of \$1.5 million. The city manager and finance director met with the municipal financial advisor and they are comfortable with the city bonding out the capital infrastructure projects for about \$1.4 million. Annual payments will be about \$100,000, but they won't know until they are closer to issuing the bond as rates changes often. This means he would recommend council to withdraw from several projects: Bayside Cluster, Beverly Gardens Cluster, Valley Street Crosswalk, Valley West (Harshman to Pleasant Valley), and Wagon Wheel Cluster. The projects total \$166,400 in 2022, but local share costs increase to \$2.5 million in 2023.

Mr. Zach Joseph, councilmember elect, asked if the MVRPC released initial guidance on what the timeline or financial impact of the infrastructure legislation. Mr. Rauch stated the infrastructure bill was just passed this week. They are waiting guidance for what is in and what is out. He is hoping the infrastructure bill will become resources they can apply for through the county that could be used for roads, cyber security, equipment upgrades for public safety, etc...He cautions that while ARP funds and the infrastructure bill provide pots of money to do some work, they will not be tools they can use to offset operating costs. They will still have the obstacle of meeting the operating costs. Deputy Mayor Lommatzsch stated the MVRPC at this time has not received guidance on these funds from the state. Discussion was held on the time frame when guidance is usually received, and future plans for projects in Riverside. Mr. Denning stated they need to keep plans ready and add plans should federal money come to them they need to be ready to use it.

**How do they get there?** Mr. Rauch stated the draft budget for 2022 starts them towards a more sustainable future. They would not be in this position if not for the public support. They have built the budget on best estimates to date and have taken a conservative approach to the budget. They need to improve the financial condition of the city. To do this they need to acquire tools to streamline budget and accounting practices. He will establish a clear, defined, regular budget process. Next year may be a little different as they will be doing a financial system upgrade and doing a deliberate budget process. They will take the budget and use it to align operations and services with available resources. They will rebuild fund balances and pay down debt. They need to pay close attention to revenues and expenditures next year and adjust the course mid-year if necessary. The estimates that CCA provided assumes there is 100% compliance. It may come in short of the forecast as employers may not realize the change and hold the correct amount or self-filers may forget there was an increase. Additionally, the forecast is based on 2019 numbers. They have built the budget using the most reasonable assumptions and best date, but they will need to watch it. The significant budget priorities to get them out of the hole: finding a way to reduce the public service funds reliance on the General Fund, and finding some way to reduce the money they are on the hook for Wright Point. These two funds are the area of focus for next year.

Mr. Rauch stated he needs feedback from council on the draft budget and the line items. Mr. Joseph asked about the health insurance premiums in Fund 103 comparing 2022 to prior years. Mr. Rauch stated that some of the line items were not inflated by percentages, but rather by the actual employer share cost they have to pay on a per capita basis. They are assuming for this budget that everyone picks the most expensive plan. Discussion was held on health insurance costs. Mr. Rauch stated that there is one additional personnel to be added in the finance department and that has also added to the costs. The line items for a new person has also been baked in to the budget.

Mr. Joseph asked about Fund 108 showing a 154% increase. Mr. Lohr stated that Fund 107 and 108 both cover the Community Development Department since they were previously two separate departments. Fund 107 is going to be completely defunded and moved to Fund 108. Mr. Denning asked if they can see the combined number if the departments were



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together in 2019 and 2020 so he has something to compare it to. Mr. Rauch stated he could do that.

Ms. Fry asked if the budget committee had any input as she guessed they did not. Mr. Rauch stated they hadn't; he was in a rush to get this to council. In terms of approach, if they can get a budget in place next year, then they should use the budget committee at council work sessions to address the 2023 budget process. He has worked with committees like this before and get input from residents and the impacts. He stated they will be watching the budget next year as they get revenue from CCA twice a month so they will be on top of it should any adjustments need to be made.

Mayor Williams thanked Mr. Rauch for getting them the information as it is a lot to digest and it is well presented. Mr. Denning stated this is the best budget he has seen in the past 12 – 15 years and as a layperson it gives him what he needs to make the decisions they will have to make in a format that he can digest. Mr. Rauch thanked staff as they have put a lot into this as well. Mr. Denning stated this is what they have been asking for for the past 5 – 7 years and have been given iterations of it, but this is what they have wanted. Ms. Fry asked what the next steps were. Mr. Rauch stated if they are comfortable they can put it on the agenda next week. He spoke with the clerk and stated they could put it for a first reading on December 2, 2021, and if they needed another work session for any questions they could do it the following week. They could then do the second reading on December 16, 2021.

Deputy Mayor Lommatzsch stated she would like to hear from department heads as she is sure this is a budget they do not like to see. Ms. Bartlett stated they have requested a backhoe as the one they have is on its last leg. This was her only objection to the budget. Mr. Maxfield stated that he won't vote for any other piece of equipment unless it goes to fire and police as he is unhappy with what happened with the budget and the projection. They need to be diligent moving forward. Deputy Mayor Lommatzsch asked him to clarify. Mr. Maxfield stated he is disappointed in some of the projections they had to now. He wants to make sure they spend any money that it goes where it needs to go for new equipment that needs purchased and things like that.

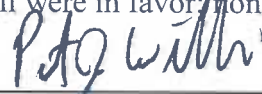
Mr. Joseph asked what is council's relation with police and fire and labor relations when they get privy over this. What does it look like from a council perspective? Mr. Rauch stated his priority is to council first. Once they get to a place where they have draft budget, he intends to meet with union representatives to get to know them and provide a similar overview on the budget, what they are looking at and how to address it going forward.

**COUNCIL MEMBER COMMENTS:** Mrs. Franklin thanked all the residents who voted yes for the income tax increase. She thanked staff and the city manager for putting the information together quickly.

Ms. Campbell stated Mr. Rauch did a great job.

Mayor Williams thanked staff and the city manager for putting the presentation together in a way that allowed them to easily discuss and go through it. He stated they have high hopes after the income tax increase and thanked April for pushing them over the summer for getting council on board for this and putting it before the citizens. They are making a historic investment going to police and fire for years to come. This will reshape the way our citizens interact and can feel assured on the level of service they receive. They did not get into this position overnight and they will not get out overnight.

**ADJOURNMENT:** Mr. Denning motioned to adjourn. Ms. Campbell seconded the motion. All were in favor; none were opposed. **Motion carried.** The meeting adjourned at 7:05 pm.

  
Peter J. Williams, Mayor

  
Clerk of Council

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